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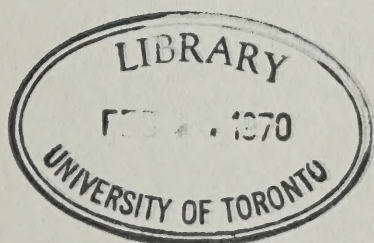
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Government  
Publications


Ontario. Legislative assembly [Committees]  
Select committee on consumer credit  
Hearings

SELECT COMMITTEE ON CONSUMER CREDIT

Proceedings of the hearings at the  
State Building, Los Angeles, California,  
on the 8th day of January, 1965.



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MEMBERS OF SELECT COMMITTEE ON CONSUMER CREDIT:

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G. KERR, M.P.P.

A. F. LAWRENCE, M.P.P.

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D. C. MacDONALD, M.P.P.

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Consultant

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Secretary

MEMBERS OF PANEL:

VINCENT THORPE

Assistant Attorney  
General, Los Angeles,  
California.

A. E. KAISER

Credit Consultant,  
California Retailers  
Association, Los Angeles,  
California.

A. E. WEIDMAN

President, Seaboard Finance.

H. A. MESSELSOHN

Globe Finance Co.

L. G. LANCET

Vine-Sunset Loan Co.

T. B. PENN

Mutual Finance Corp.

C. W. FERGUSON

Balboa Insurance Co.







1 MR. THORPE: Let me address myself, first  
2 of all to the panel. We have here today, I think you  
3 have been informed the Select Committee on Consumer  
4 Credit for the Parliament of Ontario, Canada. They have  
5 studied the problem on consumer credit at great length,  
6 and are quite conversant with the laws of most jurisdic-  
7 tions, and the problems and general arguments pro and con  
8 in most respects. They have come to California to get  
9 an idea of the practical effect of the California laws  
10 in consumer credit. We had a discussion yesterday with  
11 some people in the field and today we want to have a  
12 discussion with you people of the finance industry and  
13 retailing industry. We found yesterday that we worked  
14 very quickly into a question and answer session. May  
15 I suggest members on the panel introduce themselves to  
16 the committee starting with Mr. Kaiser. Mr. Kaiser is  
17 is the man who is the consultant to the committee who  
18 drafted the Unruh Act, and he is the consultant for the  
19 Retailer's Association of California and one of the  
20 drafters of the law. Now, if you could each introduce  
21 yourselves.

22 MR. KAISER: I guess I've had it.

23 MR. WEIDMAN: A. E. Weidman, Seaboard  
24 Finance Co., Los Angeles, California.

25 MR. MESSELSOHN: H.A. Messelson, Globe  
26 Finance Co., Los Angeles.

27 MR. LANCET: Lloyd G. Lancet, Office Manager,  
28 Vine-Sunset Loan Co., Los Angeles.

29 MR. FERGUSON: I'm Charles Ferguson with  
30







1 Balboa Insurance Co. We are a subsidiary of Seaboard  
2 Finance.

3 MR. KAISER: The Unruh Act came into being  
4 effective January 1st, 1960, as a result of Mr. Unruh's  
5 investigation and experience in instalment buying. He  
6 felt there was considerable abuse in the field and he wanted  
7 something done about it. Our investigation indicated  
8 there was a very great lack of disclosure in the contracts  
9 between buyers and sellers, and also there was no ceiling  
10 on the rates they could charge. The result of that was  
11 that we developed the Unruh Act, and from the conversation  
12 I overheard you are pretty familiar with what the Act is.  
13 We found charges were being made as high as 40% add on  
14 per month in the automotive field where automobile repairs  
15 take place, furniture sales had a general add on of  
16 15.49 % practically 16%. Late charges and repossessions  
17 were being abused until we corrected most of this to  
18 a pretty good degree in the Unruh Act. There might be  
19 need for clarification in certain places, right now I  
20 think the best way is for me to answer questions.

21 MR. THORPE: Mr. Messelson, you are president  
22 of the association, I suspect you have some remarks to  
23 make.

24 MR. MESSELSOON: I would say generally  
25 speaking as the Act is written is good for both borrower  
26 and lender, it's a workable act. I suppose on our side  
27 we would probably complain of the lack of adjustments.  
28 As time goes on---finance companies are not any different  
29 from any other business---they are subject to increases  
30







1 in cost. The Act doesn't provide for any corrections  
2 that we may have or adjustments that should probably  
3 result. That is one particular part of it. Perhaps  
4 adjustments could be made in some other way without  
5 increasing the rate of income to compensate for the  
6 increased cost in all departments.

7 We have in our Act an operation that is  
8 available to us, it is called a pre com. This makes it  
9 possible for the finance company to write the loan on  
10 the basis where the interest is computed for the length  
11 of the loan. This eliminates the necessity of having  
12 to figure the interest on the payments as they come in.  
13 This, in itself, is fine with the exception the law  
14 does require in the event of a pay off prior to the  
15 expiration of the loan we go through a method of refiguring  
16 the accounts so that we can make a proper correct payoff.  
17 I think one of the points to be corrected in the law  
18 would be a simpler way of having that handled so that it  
19 would not add to the cost. It seems to me something  
20 could be worked out for loans that would be fair to the  
21 borrower and the lender. This is perhaps one of the  
22 principles I would comment on.

23 MR. REILLY: Do you want to deal with these  
24 points, Mr. Messelson, from the standpoint of the  
25 increased costs. You have extra costs, and the point  
26 you made is that there is a limitation, the rate is  
27 fixed, there is no provision for increased costs?

28 MR. MESSELSOON: It hasn't been adjusted  
29 since 1940. There are no provisions in the Act, you  
30







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1 might be interested to know this, for any attorney's  
2 fees, no court costs, no repossession charges of any  
3 kind whatsoever. Under our Act the law doesn't protect  
4 us against any reasonable repossession charge. For  
5 example, if you make a loan which was for two or three  
6 months and your party skipped out, you have to go two  
7 or three hundred miles to get the car. You have possession  
8 of the automobile but the individual can come in the  
9 day you take possession and pay you the interest and  
10 you can't collect for any attorney's fees or court costs.  
11 Those are the things I think could stand some adjustment  
12 to compensate for some of the rate that has not been  
13 adjusted since 1940.

14 MR. REILLY: You would suggest they use a  
15 rebate schedule.

16 MR. MESSELSOHN: Say we write the loan  
17 directly on the basis of computed interest as it comes  
18 in. For example if your office had three thousand  
19 accounts, mostly your payments come in by mail, Monday  
20 and Tuesday are the heavy days. You spend most of the  
21 day computing interest on those accounts. You don't just  
22 figure them once. Now, when they send in their examiners  
23 they want to see that it is computed properly. If you  
24 want to do this right you have to have a double check to  
25 make sure they are proper. You can imagine the amount  
26 of work that is being done that could be eliminated.  
27 The way the act reads now, if the account was on the  
28 books for 17 months you must take that account and  
29 figure it for the proper amount of interest.  
30







1 MR. MacDONALD: Apart from the area connected  
2 with basic cost, do you have any basic objection to an  
3 interest ceiling?

4 MR. MESSELSOON: I think the interest ceiling  
5 is proper. I might say this, when coming up for the  
6 hearing I was told it was being held in the State  
7 Building, so I proceeded to go to the old building, and  
8 somebody up there remarked you haven't been up to the  
9 Commissioners for some time. I said, thank the Lord we  
10 don't have to. I think the law is good. Aside from  
11 adjustments of income I think the law is fine.

12 MR. LAWRENCE: Does the ceiling tend to  
13 become the current rate?

14 MR. MESSELSOON: The ceiling has not been  
15 changed since 1940.

16 MR. REILLY: Does everybody charge the ceiling?

17 MR. MESSELSOON: As far as I know with the  
18 exception of loans of \$5,000.00.

19 MR. IRWIN: Could I ask a question. I  
20 wasn't clear from this **discussion** yesterday. In preparing  
21 the contract which is to be signed by the borrower are  
22 those rates expressed in percentages that the borrower  
23 knows at the time he is signing the contract he is paying  
24 that percentage?

25 MR. MESSELSOON: Many times the borrower  
26 will ask what rate of interest am I paying and he is  
27 told  $2\frac{1}{2}\%$ , 2% and  $\frac{5}{6}$  of 1%, the average person says,  
28 "what do you mean by that". Now, you start talking about  
29 it in dollars, if you get it for three months the interest  
30







1 or dollar cost will be controlled by the amount you will  
2 pay.

3 MR. THORPE: With the Personal Property  
4 Brokers Act the rate is  $2\frac{1}{2}\%$  per month for the first  
5 \$200.00. For the next \$300.00 it drops to 2%.

6 MR. SEDGWICK: What we are discussing are  
7 loans and not retail instalment sales. I just want to  
8 clear my own thinking, your business particularly is  
9 lending money?

10 MR. THORPE: They do both.

11 MR. SEDGWICK: You buy contracts, you don't  
12 make contracts.

13 MR. THORPE: Mr. Kaiser will represent the  
14 sellers.

15 MR. SEDGWICK: You take the non-negotiable  
16 paper.

17 MR. MESSELSOHN: Should we be asked about the  
18 rate we have a stock answer. If the loan is over \$500.00  
19 that portion of the loan over \$500.00, whatever the  
20 amount is, is cheaper than the bank. We base it on  
21 this, that the rate over \$500.00 is 5% simple interest.  
22 The banks today on instalment loans will start at 7%  
23 and go as high as 9% discounted. They are permitted to  
24 discount on loans of any amount. On our particular deal,  
25 if he was writing a loan of \$750.00, the rate is  $2\frac{1}{2}\%$  per  
26 month on the first \$200.00, 2% for the next \$300.00, and  
27  $\frac{5}{6}$  of 1% simple interest for any amount over that and  
28 less than \$5,000.00.

29 MR. IRWIN: This is a loan contract for the  
30







1 lending of money, and it is written somewhere in the  
2 contract that those are the rates that apply?

3 MR. MESSELSO: Correct.

4 MR. IRWIN: We have a similar act, one small  
5 loans act. You suggest this is confusing to the borrower.  
6 It's difficult for you to come up with the average rate.  
7 When you get over the \$500.00 and you say to the borrower  
8 this is less than you will pay at the bank, does the  
9 borrower then know what you are talking about?

10 MR. MESSELSO: I think the whole thing is  
11 a mystery. If you want to clarify it for him you have  
12 to talk in dollar cost. There has been a remarkable  
13 lessening since the law has been changed on questioning  
14 by the borrower with respect to rate. There is no  
15 problem. Years ago before we had the law changed, when  
16 rates were out of control, it was a question, as I recall  
17 of selling a customer on the cost. Today there is no  
18 cause for concern, there is no problem in selling a loan.

19 MR. IRWIN: Now, the borrower really does  
20 know that 5/6 of one percent is a good rate, for example?

21 MR. MESSELSO: I don't think he does.

22 MR. WHITE: With these ceilings the borrower  
23 doesn't have to protect himself?

24 MR. MESSELSO: There is nothing to be  
25 concerned about. The thing most meaningful to the  
26 borrower is the actual dollars of cost it is going to  
27 be to the borrower. If he borrows \$100.00, just using  
28 the regular monthly payments which are  $2\frac{1}{2}\%$ ,  $2\%$  and  $5/6$  of  
29  $1\%$ , if the payments are made on time, let's say the  
30





1 interest charge would be \$15.00. In California, the  
2 Statement of Loans shows that amount. That I believe  
3 has a considerable amount of meaning to the average  
4 borrower.

5 MR. SEDGWICK: You don't think  $2\frac{1}{2}\%$  has  
6 much meaning?

7 MR. MESSELSOON: I think it's difficult for  
8 him to comprehend.

9 MR. IRWIN: Under the small loan acts, I  
10 assume this is true, it is difficult for the borrower  
11 to understand the effective rate he is paying overall.  
12 You have legislation wherein the borrower knows you can't  
13 charge him more than the stated rates. It becomes a  
14 matter of unconcern, he is more interested in the  
15 dollars. We have a peculiar situation in our lending field  
16 and particularly in the refinancing field. There is no  
17 declaration of the rate, there is no ceiling on the  
18 rate, there is no use of the rate in any way. You can  
19 find yourself in the situation where the dollar amounts  
20 are only shown, the rate could be 30%.

21 MR. WEIDMAN: You are referring to loans  
22 above \$1,500.00.

23 MR. IRWIN: Also in the retail Conditional  
24 Sales contract where the principal amount may be \$100.00,  
25 we have no legislation which requires declaration of the  
26 rate or limitation of the rate. In those instances where  
27 only the dollar amounts are shown then the true rate  
28 could be very high. I wonder if your situation is  
29 comparable to our own. You have legislation where the  
30







1 rate is firmly fixed.

2 MR. WEIDMAN: It's an all inclusive rate.

3 MR. WHICHER: If I went to the bank to  
4 borrow \$5,000.00, would that be expressed in simple  
5 interest?

6 MR. WEIDMAN: The amount makes me qualify  
7 my answer. If this were an unsecured loan of \$5,000.00  
8 it's probably not an instalment loan, most instalment  
9 loans are for a lesser amount. If it's an instalment  
10 loan, there, they would undoubtedly, if the discount  
11 were six percent per annum, they would refer to it as  
12 six percent per annum.

13 MR. THORPE: Would there be a document  
14 stating overall the amount of the finance or interest  
15 to be charged and the number of months involved in the  
16 contract?

17 MR. WEIDMAN: There would be no legislative  
18 requirements, it would be up to the bank.

19 MR. THORPE: On a loan from a personal  
20 property broker is there a requirement, the person  
21 gets a paper similar to that?

22 MR. WEIDMAN: It's called the Statement of  
23 Loan, it refers to the  $2\frac{1}{2}\%$ , 2%, and 5/6 of 1%, and,  
24 secondly it indicates the dollar amount of the finance  
25 charges that will be involved if the account is liquidated.

26 MR. WHICHER: On this \$5,000.00 I borrowed  
27 would it read something like this, 12 months after date  
28 I promise to pay \$5,000.00, at the rate of 7% per annum?

29 MR. MESSELSOON: Exactly.

30







1 MR. WHICHER: If I borrowed it from you, I need  
2 \$5,000.00, and I want to find out what's the cheapest  
3 rate. If I go to the bank I know it's 7%, but if I go  
4 to you I'm in difficulty.

5 MR. MESSELSOON: We would not under the  
6 Personal Property Brokers Act make an instalment loan.

7 MR. WHICHER: I want to know how much  
8 interest it would cost me.

9 MR. MESSELSOON: You don't from the bank  
10 either.

11 MR. WHICHER: I do if I sign a note.

12 MR. MESSELSOON: That's not provided for  
13 under the Personal Property Broker's Act, we don't make  
14 that kind of loan.

15 MR. WHITE: Would the bank make an instalment  
16 loan?

17 MR. MESSELSOON: Yes, but I can't speak for  
18 the bank.

19 MR. WHITE: Is it equitable to impose these  
20 regulations on your sector of the industry while leaving  
21 the banks free to do and say what they wish?

22 MR. MESSELSOON: It is a disadvantage. Our  
23 company prefers the pre-computation, this makes us more  
24 competitive. We have switched our portfolio in the past  
25 five years from about 20% pre computation to about 55%.  
26 I believe if all lenders follow this procedure that the  
27 public on the average is going to have a better concept  
28 of cost on a pre com basis than on the rate per month,  
29 especially where there is a graduation, and graduation is  
30





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1 present in most of the laws of the Union.

2 MR. KAISER: I shall try to simplify the  
3 situation. If you went to the bank to borrow \$5,000.00  
4 and you find the rate is \$300.00, and then you feel you  
5 want to shop around. So you go to a personal property  
6 broker and you get his rate, it's \$450.00 or \$500.00.

7 Do you need anything more than the dollars to tell you  
8 which one is cheaper, the dollar is the important point.

9 MR. LAWRENCE: In the instalment field, as  
10 far as the banks are concerned are they doing it on the  
11 pre com basis?

12 MR. MESSELSOON: I would say almost exclusively  
13 on the instalment credit.

14 MR. LAWRENCE: Is it fair to say because  
15 you have this legislation in your field, and you now do  
16 it this way that your competition is doing it that way?

17 MR. FERGUSON: The indication has been to  
18 me from our customers that they feel when they can see the  
19 charges every month they understand what it is costing  
20 them each month. They then know if they pay a larger  
21 amount on the principal these charges will be materially  
22 reduced. The people don't like the pre com system  
23 because they don't understand it.

24 MR. IRWIN: You are, in effect, charging  
25 for the amount on the unpaid balance. Are you doing that  
26 and are you declaring this to the customer at the time  
27 you are doing it?

28 MR. LANCET: Right. I think the majority  
29 of the independents are doing it.







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1 MR. IRWIN: What rate are you charging?

2 MR. LANCET: We are forced to charge  $2\frac{1}{2}\%$   
3 because the rate was set in 1940, and the cost of  
4 operation has sky-rocketed since then.

5 MR. IRWIN: You have tables whereby your  
6 clerks put this down?

7 MR. LANCET: That's right.

8 MR. IRWIN: It is not a great problem today  
9 then?

10 MR. LANCET: It's more trouble to train  
11 personnel to figure it than the flat discount method,  
12 but I think in the long run it has paid off in customer  
13 relations.

14 MR. KAISER: In your method, when a man  
15 makes the loan do you disclose to him the amount of  
16 dollars he is going to pay for the loan?

17 MR. LANCET: Not necessarily. In our method  
18 it is not necessary to disclose it. People, today, are  
19 very much aware of cost whether it's borrowing money  
20 or anything else. I would say a good 50% of the borrowers  
21 sit down with a paper and pencil, they ask what is this  
22 loan going to cost and you figure it out. There is no  
23 mystery about it.

24 MR. IRWIN: In your case your customers are  
25 getting the rate charged monthly on the unpaid balance,  
26 and the total cost of the loan?

27 MR. LANCET: At the time the loan is  
28 executed they are advised of the dollar amount of the  
29 loan only if they ask for it.  
30







1 MR. RILEY: This is set down and figured  
2 out?

3 MR. LANCET: Yes.

4 MR. SEDGWICK: Let's say the specified  
5 payment is \$50.00 a month. What if they pay \$80.00  
6 that month, have they saved the interest on \$30.00?

7 MR. LANCET: In fact we encourage the idea  
8 they can save money.

9 MR. SEDGWICK: So you don't have the  
10 problem of refiguring it?

11 MR. LANCET: We have found from experience  
12 that t here is a great amount of confusion in an office  
13 that has a pre computation system. The girls may say  
14 we have to call you back because the person who is able  
15 to figure that is out.

16 MR. SEDGWICK: Is out for lunch.

17 MR. LANCET: They may require two people,  
18 one to figure it out and one to double check it.

19 MR. SEDGWICK: you are familiar with the  
20 Truth In Lending Bill, that the percentage be expressed  
21 as an annual percentage?

22 MR. LANCET: I think it would be more con-  
23 fusing, it would not serve any purpose.

24 MR. SEDGWICK: Is it feasible?

25 MR. LANCET: I don't think so. When you  
26 say is it feasible---when you have a graduated rate of  
27 interest you can compute anything. What is it going  
28 to prove.

29 MR. IRWIN: You said it was not feasible.  
30





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1 We have the Small Loan Act in Ontario, in Canada, and  
2 the fact of the matter is, it is quite easy to figure  
3 the rate, the  $2\frac{1}{2}\%$ , 2% and  $\frac{5}{6}$  of 1% and add that to your  
4 totals. This I found and checked with some of the  
5 lenders under this Act and the feasibility part doesn't  
6 seem to hold water. Whether it proves anything, that is  
7 a different matter.

8 MR. LANCET: I know it's feasible to do it  
9 but it doesn't prove anything and I think it would be  
10 more confusing.

11 MR. THORPE: Let me introduce a new addition  
12 Mr. Penn of the Mutual Finance Corporation.

13 MR. LAWRENCE: Are you finding it difficult  
14 to make money out of California, are your administration  
15 costs higher in California?

16 MR. WEIDMAN: I may have misled you. We  
17 don't use the pre com in California. The question was  
18 relevant to our cost factors in California. I indicated  
19 our preference for pre com. We are not using it in  
20 California for the reasons you stated earlier, namely  
21 that the administration of the Act and the requirements  
22 on prepayment of the account, where a refund might be  
23 involved becomes onerous. The cap on the maximum size  
24 of a loan is one of the primary reasons and the problems  
25 over the years with the inflationary pressures in our  
26 economy. In order to service our customers we have to  
27 loan larger and larger amounts of money and we are  
28 operating under an unrealistic cap.

29 MR. SEDGWICK: Your cap is \$5,000.00?  
30







1 MR. WEIDMAN: In effect there isn't a cap  
2 in California, the Personal Property Brokers Act goes  
3 to \$5,000.00.

4 MR. SEDGWICK: Like our Small Loans Act  
5 which goes to \$1,500.00.

6 MR. WEIDMAN: Actually we don't go to the  
7 \$5,000.00.

8 MR. IRWIN: I have found in the the Small  
9 Loans Act, in Canada, under the present ceiling where  
10 we have the graduated scale of interest, \$1,500.00 is a  
11 practical consideration from the point of view of  
12 administration.

13 MR. WEIDMAN: I believe a more illustrative  
14 problem would be New Jersey where there is a \$500.00  
15 ceiling on a loan. This is a State in which dual business  
16 is not permitted. A sales contract cannot be purchased  
17 in a loan office. You are there to do one job and that  
18 is to loan money. In northern New Jersey it is completely  
19 inadequate to service our customers.

20 MR. WHITE: May I ask a question relating  
21 to costs. When a chap comes in to borrow money from  
22 Seaboard, you would in many cases require security. Do  
23 you take a chattel mortgage on an automobile?

24 MR. WIEDMAN: Percentage-wise it is becoming  
25 less and less important. Fifteen years ago, I would say  
26 85% of our loans, this is around the country, had some  
27 form of security. The percentage is still high, actually  
28 about 55%, but the bulk of that is a chattel mortgage  
29 on household furniture, and it is taken not because  
30 there is any intention of repossessing.







1 MR. SEDGWICK: It is psychological perhaps.

2 MR. WEIDMAN: Right.

3 MR. WHITE: Do you have other insurance  
4 on that collateral?

5 MR. WEIDMAN: In some States we are selling  
6 this insurance. It generally originates on a contract  
7 for the purchase of new furniture. I refer you to Mr.  
8 Ferguson who is closer to the insurance business than  
9 I am.

10 MR. WHITE: We are restricting the conver-  
11 sation to personal loans. You do make this insurance  
12 available, is it compulsory?

13 MR. FERGUSON: It's not compulsory anywhere.  
14 Under the law the lender may require insurance, under  
15 certain circumstances. I think I am safe in saying  
16 we have encouraged them not to require the insurance  
17 but to offer the insurance. We ran some surveys on this  
18 which might be interesting to you. The average customer  
19 isn't besieged by the ordinary insurance agent to let  
20 him sell you an insurance policy. This particular  
21 segment of the social economy is not called on so much  
22 by the agent. I would assume 80% of the time the  
23 customer won't have any other insurance, I think I am  
24 conservative, 90% of the time. The reason we know that,  
25 we asked if there was any other insurance and 90% of the  
26 time he will say this is the only insurance he has. We  
27 believe in the insurance business. We are reaching into  
28 a market that the local agent doesn't care to reach into,  
29 for this reason, the amount we charge for the insurance  
30





1 is nominal, and the local agent can't afford to go out  
2 and see the man on the street to write a \$10.00 policy,  
3 it's not economically feasible for him. We are not  
4 requiring the insurance we are offering the insurance.

5 MR. MESSELSOON: Insurance doesn't have that  
6 much importance to us. We are in the loan business.

7 MR. MacDONALD: Would you not on some goods  
8 insist if the insurance was marginal?

9 MR. MESSELSOON: Only on automobiles. Under  
10 the California law we are not permitted to make an  
11 unsecured loan. A salary assignment is considered a  
12 secured loan, and there are many times I would say on  
13 the vast majority of the loans we make where we don't  
14 even go out and see the furniture unless it's a large  
15 loan.

16 MR. WHITE: I am trying to determine whether  
17 an unscrupulous lender, if he couldn't go beyond that,  
18 thereby escaping the maximum interest rates, and secondly,  
19 even with the absence of maximum rates if he couldn't  
20 avoid honest disclosure of the cost of that loan. Does  
21 this happen?

22 MR. MESSELSOON: Yes, you are going to find  
23 that scavenger, but eventually he falls by the wayside.  
24 It happens in all business. You have to realize you  
25 are in business for the future and you are going to do  
26 it properly.

27 MR. REILLY: Everybody in business isn't a  
28 crook.

29 MR. MESSELSOON: It's a tremendous thing to  
30







1 MR. WHITE: Do you offer life insurance on  
2 small loans?

3 MR. MESSELSO: We don't, ourselves.

4 MR. FERGUSON: Let me cover what we think  
5 is important. We are not writing a so-called fire  
6 insurance policy. We are putting coverage into the  
7 policy that the ordinary insurance company would not  
8 put in. We don't charge for this. The reason for this  
9 is because if we wrote the standard type of policy and  
10 the customer had a loss and the lender had to say that  
11 particular thing is not covered, this would create an  
12 undesirable relationship between the lender and the  
13 customer. We try our best to make these policies as  
14 broad as we can.

15 MR. WHICHER: If there was a loss would it  
16 be payable to the finance company?

17 MR. FERGUSON: No, direct to the company.

18 MR. MESSELSO: It doesn't lapse or cancel  
19 itself. On the day the loan is paid off, it's written  
20 in their name.

21 MR. SEDGWICK: If the money is paid to the  
22 borrower, what element of protection does the lender have?

23 MR. MESSELSO: The honesty of the people.

24 MR. SEDGWICK: If they have a fire they will  
25 pay you off.

26 MR. THORPE: I note some books were dropped  
27 in front of Mr. Kaiser. I suspect it might be an excellent  
28 summary of the Unruh Act.

29 MR. KAISER: This was prepared and distributed  
30





1 to their members. It gives an interpretation of the  
2 Act and how it should be applied in the industry.

3 MR. THORPE: I believe all the gentlemen  
4 here are also involved in the business of purchasing  
5 contracts from retailers.

6 MR. MESSELSOHN: It has nothing to do with  
7 the loan business.

8 MR. THORPE: When we talk about consumer  
9 credit let's limit ourselves to California credit available  
10 to consumers for retail purchases. What percentage do  
11 you think is extended through loans and what percentage  
12 is extended through retail instalment sales contracts?

13 MR. LANCET: The volume is three to one  
14 in favour of sales contracts.

15 MR. THORPE: Most consumer credit is extended  
16 through retail instalment credit.

17 MR. KAISER: The retail business instalment  
18 sales contracts excluding automobiles, will only run  
19 perhaps 12% of the business.

20 MR. THORPE: The other sales are cash sales.

21 MR. KAISER: Then you run into revolving  
22 charge accounts and regular charge accounts which are  
23 very rarely financed by a finance company, mostly by  
24 banks through loans.

25 MR. SEDGWICK: They finance them themselves,  
26 they do the mechanics themselves?

27 MR. KAISER: That's right.

28 MR. MacDONALD: To what extent does the  
29 Unruh Act apply to revolving accounts?  
30







1 MR. KAISER: The Bank of America is the  
2 leader in that, and Seaboard did. I don't know whether  
3 you are back in that field.

4 MR. WEIDMAN: Only to a limited degree.

5 MR. THORPE: Insofar as Unruh contracts  
6 or retail instalment contracts and loans are concerned  
7 for credit extended in those two ways, Unruh contracts  
8 prevail maybe two or three to one.

9 MR. KAISER: The majority of the paper  
10 finance companies buy is automobile.

11 MR. MESSELSOHN: I think it varies. We had  
12 almost half and half on retail sales contracts that  
13 didn't involve automobile or furniture.

14 MR. WEIDMAN: Of the total amount of  
15 consumer credit about 25% is direct personal instalment  
16 loans.

17 MR. THORPE: Most credit goes through other  
18 retail instalment contracts or through revolving  
19 charges, I gather from what you said, Mr. Kaiser.

20 MR. MacDONALD: Does the Unruh Act apply  
21 to revolving accounts?

22 MR. KAISER: Yes, it does.

23 MR. IRWIN: How do you require the charges  
24 to be made up, say by the department stores?

25 MR. KAISER: The charge is limited and shall  
26 not exceed  $1\frac{1}{2}\%$  per month of the outstanding balance from  
27 month to month. I might say to you that has been subject  
28 to controversy down here on the interpretation of outstand-  
29 ing balance from month to month. Industry generally  
30





1 interprets that to mean the balance from one month  
2 carried forward to the next month. There is no charge  
3 on the first month's purchases.

4 MR. SEDGWICK: Even if the balance on the  
5 next month is \$20.00?

6 MR. KAISER: That's right.

7 MR. MacDONALD: How do you reconcile that  
8 with the fact it is  $2\frac{1}{2}\%$  on the bottom range?

9 MR. KAISER: There is a minimum charge  
10 permitted, not to exceed \$1.00 per month. There is also  
11 a provision whereby a scale of payments may be made on  
12 a chart basis where the service charge may be computed  
13 on the median figure in a range of not more than \$10.00.  
14 You run off the balance to the nearest \$10.00 and charge  
15  $1\frac{1}{2}\%$  on that. I would suggest if you are thinking of  
16 using the California Act as a guide that you can clarify  
17 it by showing it was charged on the outstanding balance  
18 at the end of the preceding month. Then you avoid all  
19 controversy. This is what they are doing.

20 MR. MacDONALD: You found no particular  
21 difficulty in bringing the revolving accounts under the  
22 legislature?

23 MR. KAISER: Your situation in Canada may  
24 be a little different. I believe you followed the  
25 time price differential doctrine as we did down here, a  
26 time price differential as being distinct from interest  
27 so that retailers aren't exempt from the interest act  
28 or usury act.

29 MR. SEDGWICK: You don't use the word  
30







1 interest you use the word charges.

2 MR. KAISER: Definitely.

3 MR. IRWIN: You do call for the percentage  
4 calculation and some form of declaration to the buyer  
5 that he is being charged this  $1\frac{1}{2}\%$ ?

6 MR. KAISER: I think our law is a little  
7 weak. In the retail business many charge accounts are  
8 opened by customers by telephone. Maybe they pick up a  
9 credit application, fill it out and drop it into a mailbox  
10 and mail it in. There is no opportunity to have an  
11 interview with these customers and to give them a copy  
12 of the application. So we provide that the account  
13 should be opened at the request of the customer by a  
14 form of application, but that no copy was necessary  
15 for the customer, but that the terms and conditions of  
16 the contract would be stated in the notice where the  
17 account was accepted and opened. I think that's a pretty  
18 good rule, but I believe the requirement of disclosure  
19 in that notice should be more elaborate than we have  
20 put into the California Act. It should specify what  
21 the charge is going to be computed on and what the  
22 minimums should be.

23 MR. THORPE: What about the monthly  
24 statement?

25 MR. KAISER: Monthly statements have no  
26 requirement. They are on a monthly basis without any  
27 relationship.

28 MR. REILLY: When you have a minimum charge,  
29 is it possible this might exceed  $1\frac{1}{2}\%$ ?





1 MR. KAISER: There are not too many  
2 merchants that take advantage of that \$1.00 minimum.

3 MR. SEDGWICK: If the charge is 30 cents  
4 they don't bother with the minimum.

5 MR. KAISER: If the balance is less than  
6 \$10.00 they don't figure any charge on it. On a \$30.00  
7 balance your  $1\frac{1}{2}\%$  would be 45 cents. Incidentally that  
8 is one of the reasons why retailing has opposed the  
9 Douglas Act or any Acts like it because computations  
10 would be very involved. In developing legislation you  
11 have to consider the small merchant and what he can do.  
12 You have to have rates acceptable both to the retailer  
13 that carries his own paper and the to the finance company  
14 that might buy it.

15 MR. LAWRENCE: I want to ask Mr. Weidman a  
16 question. A number of the States still don't have rate  
17 regulations in the field California does. In a comparable  
18 State where there is no rate regulation is the rate  
19 per the California rate, or what?

20 MR. WEIDMAN: You are speaking of consumer  
21 loans and not contracts. We have regulations in every  
22 State in which we operate. We are in 48 States.

23 MR. THORPE: Are there any States which  
24 don't have any limit on the contracts?

25 MR. KAISER: I think there are 36 States  
26 which have regulated it.

27 MR. WEIDMAN: We don't purchase automobile  
28 contracts. It's limited to furniture and appliances,  
29 and there we see very little, if any difference in the  
30







1 rates. It's very competetive.

2 MR. IRWIN: What is the rate provided for?

3 MR. KAISER: It is described in the Act  
4 as being  $5/6$  of 1%, multiplied by the number of months.

5 MR. IRWIN: It is an add on?

6 MR. KAISER: It considers any fraction of  
7 a month, of 15 or more days as being a full month. That  
8 is on the first \$1,000.00.

9 MR. WHITE: May I refer you to page 21,  
10 vendors rights to repossess or suing for deficiency. I  
11 am wondering how this is working out in practice?

12 MR. KAISER: I am not familiar with this.  
13 These merchants who carry their own paper, they sue on the  
14 balance.

15 MR. LANCET: The Unruh Act is a very excellent  
16 vehicle but there are certain inequities in it. I under-  
17 stand the basic theories that we are trying to accomplish.  
18 However, it has resulted from our experience, in a certain  
19 amount of moral deterioration as far as the customer is  
20 concerned because it has not taken too long for the  
21 purchaser to discover all he has to do is to buy a  
22 household full of furniture, live with it for six months  
23 and then call up the finance company, and tell the finance  
24 company to come and take the merchandise, and the finance  
25 company has no alternative but to do that.

26 MR. WHITE: He can sue the fellow.

27 MR. LANCET: With the cost of suing it doesn't  
28 pay.

29 MR. THORPE: Is this widespread?  
30





1 MR. LANCET: Where we have a large transient  
2 population it is a big problem.

3 WHITE: You would have the same problem  
4 in the absence of the Act.

5 MR. IRWIN: When the contract you bought  
6 falls into default you decide whether you will sue?

7 MR. LANCET: That's right.

8 MR. SEDGWICK: Where you buy paper of that  
9 kind, if there is a default you can throw it back at the  
10 original purchaser?

11 MR. LANCET: 90% of the paper we purchase  
12 is without recourse, without a reserve. Every company  
13 has it's own policy.

14 MR. WHITE: You make a repossession or you  
15 sue the fellow?

16 MR. LANCET: I thought there was a possible  
17 solution to this. Instead of allowing attorney fees  
18 in the case of a suit and cost, and doing away with the  
19 deficiency balance, or to allow the deficiency but waive  
20 the cost of the attorney fees. In other words you  
21 couldn't charge the customer the cost of lawsuit but you  
22 collect the cost of the deficiency.

23 MR. KERR: How would you legislate that?

24 MR. KAISER: When the Unruh Act was origin-  
25 ally written it provided for deficiency judgments. It  
26 provided that you could obtain a deficiency judgment  
27 except if 80% or more of the contract had been paid. We  
28 thought this was a pretty good arrangement and we liked  
29 it, and I don't think we had much complaint from the  
30







1 industry when we incorporated that. In 1963 the deficiency  
2 judgment was eliminated by legislation. As a draftsman  
3 of the bill I am not in sympathy with this amendment, and  
4 I might say too the danger is there is going to be  
5 legislative action to try and eliminate deficiency in  
6 automobiles.

7 MR. MacDONALD: What provoked the amendment?

8 MR. KAISER: The consumer council.

9 MR. REILLY: How long was the Unruh Bill in  
10 process before it came to the legislature?

11 MR. KAISER: We started in January of 1958  
12 and introduced it in March of 1959.

13 MR. BUKATOR: How about the opposition in  
14 the House?

15 MR. KAISER: It was passed unanimously in  
16 both Houses.

17 MR. WHITE: They can repossess or they can  
18 sue for deficiency?

19 MR. KAISER: Not for deficiency but for the  
20 balance.

21 MR. WHITE: If they reposses they can  
22 retain the goods. If they retain the goods can they sell  
23 them at a later date?

24 MR. KAISER: If they inform the customer  
25 they are going to retain the goods they then must credit  
26 the customer with the full balance. Then it becomes  
27 their property and the repossession is used.

28 MR. WHITE: If they repossess and offer it  
29 by public sale they have to give full credit to the  
30





1 customer?

2 MR. KAISER: Yes, because they can't get  
3 any deficiency judgment. The only thing is they might  
4 get more for the furniture than the balance is.

5 MR. SEDGWICK: It won't often happen.

6 MR. KERR: Would you inspect the goods  
7 before you make up your mind?

8 MR. LANCET: If an account has become delin-  
9 quent to the point you have to make a decision between  
10 repossession and suing, what normally happens if you decide  
11 to sue and you went through the courts, by the time you  
12 get it through the courts and you get judgment, maybe  
13 the man is not working, maybe he is gone. Then you have  
14 lost what you recovered from the furniture.

15 MR. WHITE: So you nearly always repossess?

16 MR. LANCET: In a great many instances the  
17 furniture is not worth the cost of picking it up. We  
18 just abandon it and forget it.

19 MR. IRWIN: What would be the percentage  
20 loss, say on \$100,000.00 worth of contracts outstanding,  
21 what would be your percentage of loss from this?

22 MR. LANCET: It's running right now about  
23 3½%, 4% of the total outstanding.

24 MR. THORPE: Are you putting your contracts  
25 and loans together?

26 MR. LANCET: I am talking about the contracts,  
27 and this is net loss after recoveries. This is extremely  
28 high.

29 MR. WHITE: What does it run in Ontario?  
30







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1 MR. IRWIN: I can't really answer you. It  
2 strikes me this is high.

3 MR. KAISER: One of our problems when we  
4 discuss loss is the different mathematics used in  
5 calculating losses. Finance companies calculate their  
6 losses on outstanding contracts. Retail merchants calculate  
7 their losses as a percentage on sales, and retailers  
8 nationally in the United States have losses of approximately  
9 73/100 of 1%.

10 MR. IRWIN: This I am more familiar with.  
11 I would think 3/4 of 1% on gross sales is probably a  
12 little higher than my experience, in Canada it would be  
13 running about one half of 1%.

14 MR. THORPE: When the Finance Company buys  
15 contract paper, is there any general rule on current  
16 contracts of what the discount is, or what the purchase  
17 price of a contract is?

18 MR. LANCET: It depends on the nature of the  
19 paper. Some paper is riskier than others, and also it  
20 depends on the individual Finance Company.

21 MR. THORPE: Is there a range?

22 MR. LANCET: I can give you some information  
23 on that because our system is sold on the theory that we  
24 can save approximately 17% almost 18% on total sales with  
25 a good dealer and a certain type of merchandise if an  
26 arrangement can be worked out where we are not carrying  
27 the burden completely. If we have to buy paper on the  
28 open field where we have a non recourse arrangement, 18%  
29 of that we would turn down immediately and then there is  
30





1 10% that would be questionable. There are various forms  
2 of paper. On furniture paper in certain areas you can  
3 save 50% depending on whether it is house to house or  
4 the general retail store.

5 MR. MacDONALD: Have you found certain  
6 retailers were dealing in hot paper that they were passing  
7 on to you to get rid of?

8 MR. LANCET: That is not prevelant.

9 MR. MacDONALD: Has there tended to be a  
10 prevalence of this in door to door selling?

11 MR. LANCET: Yes.

12 MR. THORPE: We have present today a  
13 gentleman who would have that experience.

14 MR. KAISER: In our investigation we found  
15 a lot of that.

16 MR. SEDGWICK: In door to door selling?

17 MR. KAISER: We found one organization  
18 doing it with sewing machines.

19 MR. SEDGWICK: There is one that sells you  
20 the machine, where they undertake to sell you the yarn.

21 MR. KAISER: The Finance Company bought  
22 this paper at a 40% discount.

23 MR. MacDONALD: Is this a problem in the  
24 broader field?

25 MR. THORPE: It's still a problem. It's  
26 not a problem with the licensed personal property brokers  
27 who operate a dual business. 99% of the industry can  
28 be 100% perfect but the 1% which is a problem is a very  
29 serious problem. I just got a felony indictment on a  
30







1 company which specializes solely in buying this kind of  
2 paper.

3 MR. LANCET: I might say the independent  
4 operators as a result of these practices banded together  
5 and we formed an organization specifically at that time  
6 to clear amongst ourselves through various channels those  
7 dealers who would come to your office offering to sell  
8 this kind of paper. By this practice we have eliminated  
9 this, it's practically gone. If any operator wants to  
10 avail himself of the information, it's easy for him to  
11 clear this dealer the same as he would a customer. If  
12 I have a solicitation from a dealer it's not unreasonable  
13 for me to call up one of our companies and see if they  
14 know something about this.

15 MR. KERR: Has the rate regulation reduced  
16 the number of people in the lending field in the United  
17 States?

18 MR. THORPE: Do you wish to comment on that  
19 Mr. Weidman?

20 MR. WEIDMAN: The figures we got from the  
21 commissioner at the end of the year seems to indicate  
22 there is either a holding of the line or perhaps a  
23 slight increase. It is a rarity for any new ones to  
24 start, it would require a minimum of \$300,000.00 to pay  
25 your expenses, nothing less than that. So, there has  
26 been no tremendous increas in the number of operators,  
27 particularly any independents. Since we have been in  
28 California a lot of the major companines from back east  
29 have come into the field.  
30





1 MR. KERR: Is major lending more restrictive  
2 or selective?

3 MR. LANCET: I would say the industry has  
4 become sophisticated to the point we are here for the  
5 future. We are highly selective in our loans. We are  
6 not looking for fast paper. I think this has resulted in  
7 a good relationship for all concerned. For the banks  
8 that are lending us money it has been a good thing.

9 MR. IRWIN: I was going to ask these two  
10 questions. My understanding of the legislation generally  
11 in the three acts you have is that you are committed to  
12 the idea of a ceiling, and the other is that you are  
13 committed to a calculation of rates on a monthly basis.  
14 How has the industry found these two principles?

15 MR. LANCET: We do have a ceiling of  
16 \$500.00. As far as our rate is concerned we are not  
17 limited to making loans above that. The interest we pay  
18 the bank plus the cost of operating limits the independ-  
19 ent to a loan of somewhere in the neighborhood of  
20 \$1,000.00. You might stray from that but very seldom.  
21 This, in my opinion, I think needs adjustment because  
22 of the change in our economy not only for the lender  
23 but for the borrower. The average business man that  
24 has to look for a loan, that is not a bankable loan,  
25 finds it difficult to get along financially to meet some  
26 of his obligations or to be able to remedy a temporary  
27 situation because he can't find the money in the market.  
28 I'm talking about the small business man, the grocer,  
29 the filling station man. There could be some sort of  
30







1 equitable arrangement made so that they could get larger  
2 laons. There are many cases where \$500.00 as the ceiling  
3 is relatively small, and he has difficulty in getting a  
4 loan above \$1,000.00 when he needs it. I would say if it  
5 was possible to write into your Act some adjustment either  
6 up or down with respect to that rate based on the economy  
7 that would be a great help for both borrower and lender.

8 MR. IRWIN: When you refer to the \$1,000.00  
9 loan there is nothing statutory about that?

10 MR. LANCET: We strike an average, anything  
11 beyond that you are coming out on the short end. There  
12 are many cases where you force the customer to do  
13 business with us and take the rest of it somewhere else,  
14 where he is paying a high rate on both ends.

15 MR. REILLY: What about the elimination of  
16 the ceiling?

17 MR. WHITE: The point is being raised what  
18 would happen to the industry if there was no restriction  
19 on rates?

20 MR. LANCET: It would just raise havoc when  
21 there are people who are not satisfied. We would go  
22 back to the old way of business.

23 MR. IRWIN: You are committed to the  
24 uniform idea?

25 MR. LANCET: We must have an Act to operate  
26 on.

27 MR. MacDONALD: I don't think we have done  
28 any serious questioning on the field of consumer fraud.

29 MR. THORPE: In California we have a person  
30





1 who is an aide to the Governor or a recommender of ideas  
2 and suggestions. We, in our consumer fraud unit are  
3 in the Attorney-General's office. The Attorney General  
4 is the chief law officer and has the traditional respon-  
5 sibility, as well as doing the legal advising, of the  
6 governing of all the State agencies. Our role is kind  
7 of a dual role. We are prosecutors where there is a  
8 major fraud. This is how we got into aluminum sidings.  
9 We are not direct line prosecutors. Criminal prosecutions  
10 are normally handled by District Attorneys. We are  
11 advisors, consultants and recommenders. When it comes  
12 to consumer protection law we are concerned with the  
13 Unruh Act and the Rees-Levering Acts. We assist in the  
14 making of committees such as Mr. Kaiser's committee which  
15 passed the Unruh Act. As we see problems we would urge  
16 the committee to make a change. If they want to make  
17 a change they might ask us what the effect would be in  
18 practice.

19 MR. MacDONALD: Where do you draw the line?

20 MR. THORPE: That is quite a problem. The  
21 complaintant may go to the Better Business Bureau, to  
22 the Police Department, to the Consumer Council or to us,  
23 or to all of us. It costs money to check complaints, we  
24 don't have the money. You have to have somebody. In  
25 our society there has got to be somebody around who is  
26 watching the problem and thinking about it, and who acts  
27 as an arbitrator between industry and the consumer.

28 MR. IRWIN: On the question of enforcement  
29 I gather you have Mr. Mitzler. Is he going around making  
30







1 spot checks?

2 MR. LANCET: I haven't seen or spoken to  
3 Mr. Mitzler in ten or twelve years. Once in while we  
4 get a call from the department----as long as we are  
5 operating according to the code.

6 MR. THORPE: In this field you do have a man  
7 that knows what is going on?

8 MR. LANCET: Yes, I think there has been  
9 a practical result of all regulations in the field.  
10 Companies such as we are operating when we have run  
11 across a fraud operation or one which generates a lot  
12 of customer complaints of any nature such as aluminum  
13 sidings, sewing machines or freezer deals, we immediately  
14 cease and disist and stay away from that field entirely,  
15 which has resulted, because they can't find an outlet  
16 for their paper, in a lot of companies forming their  
17 own finance institution. As a result all the horrors  
18 of the field are put into one place.

19 MR. LAWRENCE: We are running into this up  
20 in Ontario.

21 MR. THORPE: It's a loophole in our law.

22 MR. LAWRENCE: We think there is some parts  
23 in there that just don't make sense,  $1\frac{1}{2}\%$  per month. We  
24 have opposition from people, locals and independents,  
25 who are opposed to the monthly rate.

26 MR. LANCET: They will fall into line. I  
27 think there is a relationship between the people. The  
28 law is being passed for ourselves and the legislators.  
29 We are trying to understand each other rather than trying  
30





1 to pass some legislation without making a true analysis  
2 such as you gentlemen are making. If there is legislation  
3 based on true facts and on understanding it has to work  
4 for both sides.

5 MR. MacDONALD: Your point is well taken.  
6 In our neighboring province, in Manitoba, the Attorney  
7 General found a lot of their difficulties were because  
8 they rushed into it.

9 MR. LAWRENCE: I hope if we can come up with  
10 anything concrete it will be applied to the whole field.

11 MR. IRWIN: Under the Unruh Act the add on  
12 is 5/6 of 1%, theoretically this works out to around  
13 19% or 20%.

14 MR. LANCET: It's 10%, it can't be any more.

15 MR. KAISER: About 18%.

16 MR. IRWIN: We have a problem in Canada,  
17 our bank rate is set by the Federal Government, and if a  
18 commercial loan is made the rate is 6%, but it's not paid  
19 in instalments. But the banks are also in what we call  
20 personal loans. These are instalment loans, they are  
21 charging 6% which becomes 12%, this is an add on.

22 MR. LANCET: We can't compete with the banks.  
23 As a matter of fact in the State of California I would  
24 say the Bank of America finances 90% of the finance  
25 companies. Let me tell you something, you mention the  
26 bank to the average per son and as far as they are concerned  
27 they are holy, everything is wonderful. I think that's  
28 fine, the bank is entitled to an increase, 6% or 7% is  
29 no great shakes, they have expenses. If you say more  
30 than 6% the average person is scared.







1 MR. SEDGWICK: The unfair thing is the  
2 banks in our system are permitted to show 6% although  
3 they are not charging 6%.

4 MR. IRWIN: One other point, you people  
5 down here are quite happy apparently with the requirement  
6 that you can only charge certain percentages a month,  
7 10% add on in the case of instalment contracts, but I  
8 detect a horror of anybody suggesting this being  
9 expressed in annual terms, why?

10 MR. LANCET: The general public have been  
11 educated to the point where anything beyond 6%----they  
12 have no idea of what 6% means. He has no knowledge of  
13 it in words, he knows it is something that has been  
14 mentioned.

15 MR. REILLY: Your objection is psychological.

16 MR. IRWIN: I presume you have conventional  
17 mortgage loans. A person goes to buy a house for  
18 \$30,000.00 and he gets a \$25,000.00 first mortgage. How  
19 would the rate be expressed to the borrower in this  
20 case?

21 MR. LANCET: They are charged 6% or 7%.  
22 If you ask about the rate it is truly 6% or 7% simple  
23 interest.

24 MR. IRWIN: The point is, in certain fields  
25 the consumer who is, in effect, buying or undertaking an  
26 instalment contract, in the case of a first mortgage, is  
27 paying the truly effective rate on that loan in terms  
28 of percent per annum. In your case he is buying or  
29 undertaking a much shorter instalment contract but he is  
30





1 not being told the percent per annum. In other words  
2 it boils down to this, that there is a fear on the  
3 part of the lenders on all types of credit that the  
4 declaration of the effective annual rate would be  
5 discouraging to the borrower?

6 MR. KAISER: Right.  
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